

Message Text

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70

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 AGR-20

DODE-00 PM-07 H-03 L-03 PA-03 PRS-01 USIA-15 ACDA-19

IO-15 AF-10 ARA-16 NEA-10 OIC-04 INT-08 TAR-02 DRC-01

(ADP)W

----- 099329

R 281559Z SEP 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4321

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

TREASURY DEPT WASHDC

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DEPARTMENT FOR FRB

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS, WEEK ENDING SEPTEMBER 28

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BEGIN SUMMARY: POUND WEAKENED SLIGHTLY AGAINST DOLLAR DURING WEEK. THE TRADE-WEIGHTED DEVALUATION OF STERLING NARROWED TO 19.49 ON SEPTEMBER 27 (FROM 19.80 ON SEPTEMBER 20). GOLD FELL MODERATELY TO CLOSE AT \$101.25 (SEPTEMBER 27), DOWN \$2.50 FROM LAST THURSDAY'S CLOSE. RETAIL PRICES FELL IN AUGUST DUE TO SEASONAL FACTORS. GOVERNMENT IS CLOSE TO ANNOUNCING DRAFT PLANS FOR PHASE III OF INCOMES POLICY. LORD ROTHSCHILD, SENIOR CIVIL SERVANT WHO HEADS CENTRAL POLICY REVIEW STAFF CREATED TEMPEST IN TEAPOT WHEN HE INDICATED IN A PRIVATE SPEECH LONG-TERM ECONOMIC OUTLOOK FOR UK IS GLOOMY. END SUMMARY

1. THE POUND CLOSED ON THURSDAY (SEPT. 27) AT \$2.4195, DOWN 15 POINTS FROM LAST THURSDAY'S CLOSE. POUND STRENGTHENED AGAINST DOLLAR EARLY IN WEEK, SLIPPED ON THURSDAY. ON FRIDAY MORNING, IT CAME UNDER SELLING PRESSURE IN A THIN MARKET BASED ON PRESS REPORT THAT HONG KONG AND OTHER STERLING HOLDERS MIGHT SHIFT OUT OF STERLING. AFTER FALLING TO 2.4050, STERLING RECOVERED TO \$2.4120 BY NOON SEPTEMBER 28.

2. STERLING'S TRADE-WEIGHTED DEVALUATION AGAINST DECEMBER 1971 RATES NARROWED DURING WEEK TO 19.49, ON SEPT. 27, DOWN FROM RECORD 19.80 ON SEPT. 21. GOLD FELL PROGRESSIVELY DURING WEEK, CLOSED AT \$101.25 ON SEPT. 27, DOWN \$2.50 FROM PREVIOUS WEEK.

3. SEASONAL FALL IN PRICE OF FRESH FOOD IN AUGUST WAS MAIN FACTOR BEHIND SMALLEST MONTHLY INCREASE IN UK RETAIL PRICE LEVEL FOR NEARLY TWO YEARS. AUGUST INDEX OF 180.2 BARELY ABOVE JULY FIGURE OF 179.7 (JANUARY 1962 100). INDEX OF RETAIL PRICES IN AUGUST WAS 8.9 PERCENT ABOVE THE LEVEL 12 MONTHS EARLIER, COMPARED WITH 9.4 PERCENT RISE BETWEEN JULY 1972 AND JULY OF THIS YEAR.

4. LORD ROTHSCHILD, HEAD OF THE GOVERNMENT'S CENTRAL POLICY REVIEW STAFF, AND ONE OF THE GOVERNMENT'S SENIOR CIVIL SERVICE ADVISORS, CALLED FOR A MAJOR NATIONAL CHANGE IN ORIENTATION IF BRITAIN IS TO SOLVE OR EVEN AMELIORATE THE PROBLEMS IT FACES. THE DANGERS, HE SAID, UNCLASSIFIED

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WERE AS REAL AS IN THE LAST WAR. APPARENTLY RELYING ON HUDSON INSTITUTE FIGURES, HE SAID BY 1985, UK WOULD HAVE ONLY HALF OF GNP PER HEAD OF FRANCE AND GERMANY AND WOULD BE ABOUT EQUAL WITH ITALY. THE UK MUST GIVE UP IDEA THAT IT IS ONE OF THE WEALTHIEST, MOST INFLUENTIAL AND IMPORTANT COUNTRIES IN THE WORLD, "IN OTHER WORDS, THAT QUEEN VICTORIA IS STILL REIGNING." HE SAID UK HAS NEITHER THE MONEY NOR THE RESOURCES TO DO ALL THOSE

THINGS IT WOULD LIKE TO DO. HIS COMMENTS BROUGHT FORTH A REBUKE FROM PRIME MINISTER HEATH AND SOME RED FACES IN WHITEHALL. IT HAS BEEN PICKED UP BY THE LABOR PARTY AS EVIDENCE OF THE NEED FOR A FRESH LOOK AT EXISTING GOVERNMENT POSITIONS. ROTHSCHILD'S OFFICE TOLD EMBASSY THAT SPEECH WAS PERSONAL, AND THAT NO PREPARED TEXT IS AVAILABLE FOR DISTRIBUTION.

5. THE GOVERNMENT IS ON THE VERGE OF ANNOUNCING ITS DRAFT PROPOSALS FOR PHASE III OF THE COUNTER-INFLATION PROGRAM. MEETINGS WERE HELD WITH THE TRADE UNIONS ON THURSDAY. THE PRIME MINISTER STATED THERE HAD BEEN A CONSIDERABLE AREA OF AGREEMENT. THE PROPOSALS ARE EXPECTED TO INCLUDE A PERMISSIBLE WAGE PACKAGE INCREASE UP TO TEN PERCENT, MADE UP OF EIGHT PERCENT BASIC INCREASES TOGETHER WITH SOME MARGIN FOR EXTRAS SUCH AS ALLOWANCES, COST-OF-LIVING INCREASES, ETC. THE LOWEST

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R 281559Z SEP 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4322

INFO AMEMBASSY BERN

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AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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PAID CATEGORIES WOULD BE HELPED BY A GUARANTEED TWO
POUND WEEKLY PAY INCREASE, TO FALL WITHIN THE PERMISSIBLE
BASIC 8 PERCENT INCREASE. THE GOVERNMENT MAY ALSO
PROPOSE CREATION OF A NEW COMMISSION CHARGED WITH
RECOMMENDING HOW PRODUCTIVITY AND LOW WAGES CAN BE
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BOOSTED IN LOW-PAID INDUSTRIES.

6. THE PRIME MINISTER IS TO MEET ON MONDAY, OCTOBER 1, TO
DISCUSS PHASE III WITH CONFEDERATION OF BRITISH INDUSTRIES
ALL INDICATIONS ARE THAT THE MEETING WILL BE A DIFFICULT
ONE. CAMPBELL ADAMSON, THE CBI DIRECTOR, BLASTED
BRITISH CIVIL SERVANTS IN A SPEECH THIS WEEK FOR FAILING
TO CONVEY THE CENTRAL MESSAGE OF THE NEED TO SUSTAIN
PROFITABILITY DURING PHASE III. WHEREAS PROFIT IS A
DIRTY WORD WITH THE TRADE UNIONS, ADAMSON CONTENDED IT IS
EVEN A DIRTIER WORD WITH SOME CIVIL SERVANTS. THE CBI
CONTENTEND THAT THE MAJOR DIFFICULTY UNDER THE PRESENT
COUNTER INFLATION PROGRAM IS THAT FIRMS HAVE
NO INCENTIVE TO BECOME MORE EFFICIENT; MOST OF THE
IMPROVEMENT IN PRODUCTIVITY IS LOST THROUGH REQUIREMENTS
THAT PRICES BE LOWERED, RATHER THAN ALLOWING PROFITS TO
INCREASE. ADAMSON CONTENTS THAT A HIGHER LEVEL OF CASH
FLOW IS NECESSARY IN ORDER TO PROVIDE THE FUNDS FOR
NECESSARY INVESTMENT. COMPANIES WHICH HAVE REDUCED COSTS
SHOULD BE ABLE TO RETAIN A GREATER SHARE OF THE BENEFITS.

7. THE FORWARD DISCOUNT NARROWED PROGRESSIVELY DURING THE
WEEK.

	9/20	9/27	CHANGE
1 MONTH	0.95-1/2	0.76	DOWN 0.19-1/2
3 MONTHS	2.91	2.59-1/2	DOWN 0.31-1/2
6 MONTHS	5.01-1/2	4.70-1/2	DOWN 0.31

(ALL FIGURES IN CENTS)

8. LOCAL AUTHORITY RATES INCREASED PROGRESSIVELY.

	9/20	9/27	CHANGE
1 MONTH	12-1/16	12-1/2	UP 7/16
3 MONTHS	13	13-15/16	UP 15/16
6 MONTHS	13-1/8	13-1/2	UP 3/8

9. EURO-DOLLAR RATES FELL MODERATELY.

	9/20	9/27	CHANGE
1 MONTH	10-7/8	10-3/8	DOWN 1/2
3 MONTHS	11-1/8	10-1/2	DOWN 5/8
6 MONTHS	11-1/8	10-1/2	DOWN 5/8

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10. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11.5 PERCENT.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Control Number: n/a
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Draft Date: 28 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
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Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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Line Count: 245
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Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
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Reference: n/a
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Review Event:
Review Exemptions: n/a
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US Department of State
EO Systematic Review
30 JUN 2005

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Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS, WEEK ENDING SEPTEMBER 28
TAGS: ECON, UK
To: SECSTATE WASHDC BERN BONN BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG PARIS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005